RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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June 5, 1996 **LETTER 1201**

OPPOSING FORCES: I believe Wall Street is struggling with two forces. This market doesn't want to give up, it just "does NOT want to" go down. But at the same time this market's been rising for too long -- too many weeks, too many months, too many years, and it's growing tired. The bull is panting, but he's still on his feet and hanging tough.

WORLD BOOM: This has got to be the best of times. The Latin American countries (particularly Brazil) are doing well, Europe (spurred by Germany, which is now moving out of recession) is expanding, most of Asia is booming (even Japan may have seen the worst) -- and the US is positively glowing. Last month (April) turned out to be the second biggest month for home sales in US history. Wages in the US are now starting to push up as are many prices. The next stage of the cycle will be rising interest rates plus increasing inflation (the bonds are telling us that already!). The whole picture, however, is clouded by one possibility -- what if the most overvalued stock market in US history tops out?

Meanwhile, activity on Wall Street continues at a white hot level. April saw the second biggest intake ($26.3 billion) in equity mutual funds in history. Furthermore, a large percentage of that money went into "aggressive growth funds." What's going on? **Russell opinion:** With everyone skeptical about the viability of Social Security, Americans now believe they will have to fend for themselves in their old age. And is there a better way to provide for your old age than to accumulate common stocks! Stocks are savings, aren't they? Well, we'll see.

PRIMARY TREND: For newer subscribers, I want (once again) to go over the concept of the primary trend. The primary trend is the *single most powerful force in the market.* The primary trend can be likened to the great tide of the ocean. When the tide comes in, it sweeps all before it. Within the incoming tide we can identify the waves and ripples, but by far the most important consideration is the *direction* of the main ocean tide.

Stock Funds' Intake: $99 Billion in 4 Months

By Robert McGough
Staff Reporter of The Wall Street Journal

The deluge continues.

For Third Straight Advance

Home Resales Reach Second-Highest Level Despite Rising Rates

By JOHN D. McCLAIN
Associated Press Writer

WASHINGTON — Despite rising mortgage rates, sales of previously owned homes rose by 0.5 per-

only to a 4.26 million rate set in December 1993. Many economists had expected sales to dip to about 4.04 million.

The growth was mixed, however,

ments are getting riskier. Also, a lot less is going into bonds."

For most other years, the first four months would have constituted a healthy

A bull market can be likened to the incoming tide of the ocean. The waves and ripples may confuse us as to the primary direction, but the tide will ultimately have its way. A rising tide will continue in force until it ultimately dies of exhaustion.

By the same token, when the tide crests and heads out to sea, it carries all with it. No sand castle or sea wall will contain the receding tide. A bear market can be likened to the receding tide of the ocean. The retreating tide takes everything with it. The boat that fights the tide will be left stranded on the beach.

The multi-billion dollar question at this stage of the game is whether the tide is still coming in. My answer -- as of now, there's

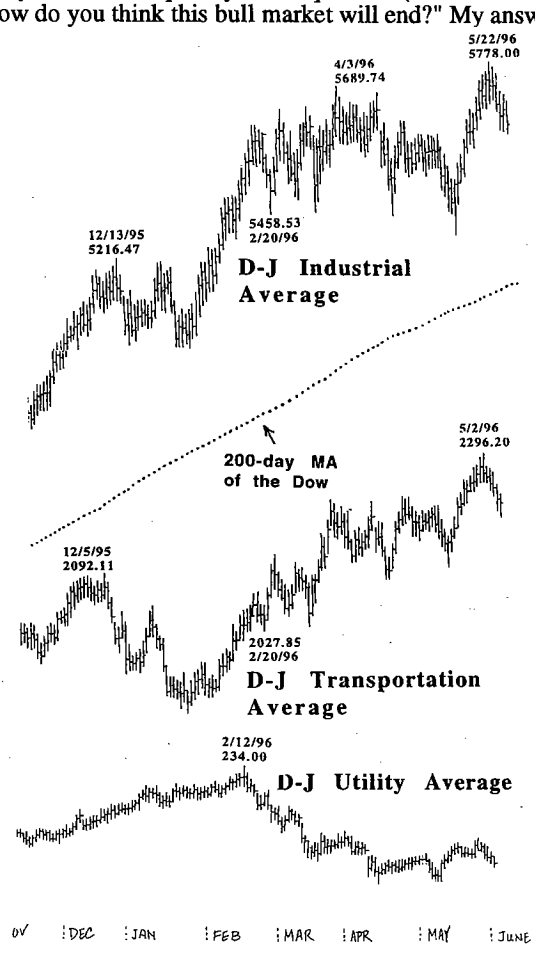
May 24 DJIA 5762.86; PTI 4567; A-D Ratio +1.54
May 31 DJIA 5643.17; PTI 4557; A-D Ratio +1.14
Dow Yield: 2.18%; Dow Price/Earnings: 18.1
Dow 200-day MA: 5191; Dow 30-day MA: 5602
Dow Times Book Value: 4.21; PTI 89-day MA: 4491
Percentage of Undervalued Blue-chips: 2%!
Gold 200-day MA: 393.06; Gold-PTI: 676

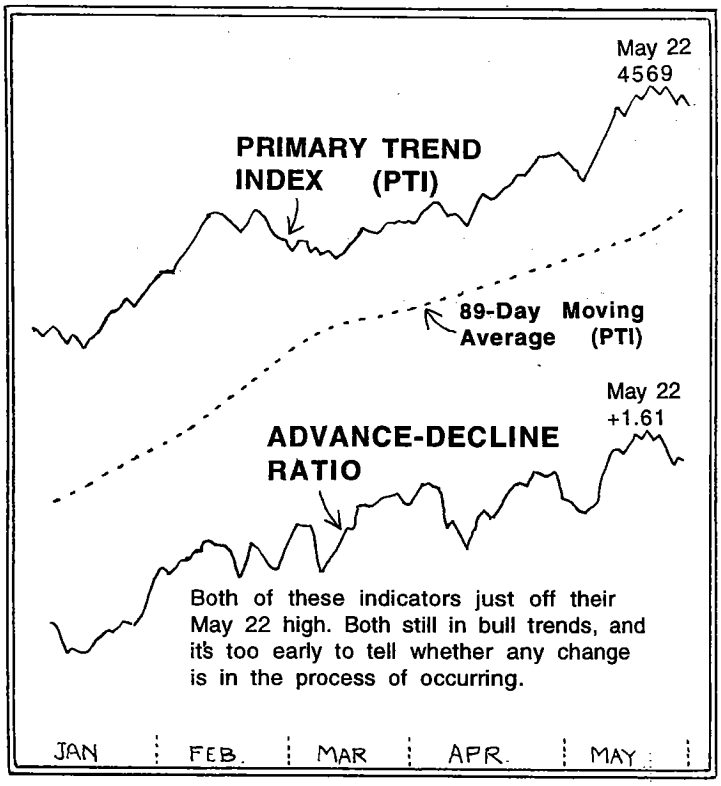
little in the action of the market to suggest that the rising tide has reached its peak. The fact is that we may be a day or a week or a year or more away from the ultimate bull market top. Unfortunately, there's simply no way of predicting or even quickly identifying the end. Yet the question of the direction of the primary trend is, as I see it, the most important question in the world today.

THE PICTURE: The stock market has had only one decline of as much as 5% since November 1993. The persistence, the sheer relentlessness, of this advance has turned bulls increasingly confident and cheering -- and bears grumpy and given to pulling their hair out.

A large segment of the analytic fraternity hates this bull market. They hate it because it has made a mockery out of almost every predictive system that they use. Analysts usually love a bull market, but the truth -- they care *more* about whether the market is following their scenario than whether stocks go up.

Probably the most frequently asked question (at least asked of me) is, "How do you think this bull market will end?" My answer is, "I





don't think it's going to end with a news event or a sudden rise in interest rates. I think it will end by just rolling over and dropping of its own weight. I think some day it will just topple over and die."

What happens is that too many people pile on to one side of the market. Too much money becomes aligned to one side of the market. Too much of the public's cash moves into equities. Simultaneously, the stock market has advanced to the point where it has discounted the BEST that can be seen ahead.

And that's it -- at that point, the bull dies and the bear is born.

When a market is grossly overvalued but the primary trend is still classified as bullish, the safest and most intelligent position is one of neutrality. Let the analysts struggle with this market. Let the public remain enthralled with this market. Let the old-timers shake their heads and say that it reminds them of 1928 or 1953 or 1968. As for me, I'll simply "play it as it lies."

Aside from duration, I noted in the last Letter that the broad S&P 500 Stock Index has risen on 17 out of the last 18 months. As far as I know, this has never happened before. So on a number of counts (including extreme overvaluation) this bull market is one for the record book. It's produced a number of statistics which have never been seen before.

No sooner had I finished the last Letter and sent it to the printer's (May 20), than the D-J Industrial Average rallied above its early-April peak of 5689.74 to close at a new bull market high. In doing so, the Dow confirmed the prior indications of the Transportation Average. Ordinarily, such a confirmation acts as an "all-clear" signal.

I hate to keep bringing this up, but we should realize that the Dow Theory confirmation thesis is valid for only so long. In a great primary bull market such as this one, there will be confirmation after re-confirmation after re-confirmation and each of these holds bullish implications.

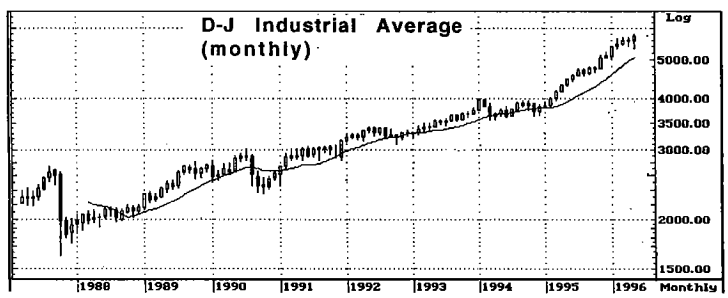
But ultimately there will be a re-confirmation which will be the *final one* -- prior to the inception of a bear market. At that point critics of Dow's Theory will claim that "the Theory doesn't work anymore." But these critics have never understood Dow's Theory in the first place, and their complaints can be chalked up to the old adage which states that "a little knowledge is worse than none."

Conclusion: The primary trend of the market continues bullish. It's ancient, it's over-done, it's over-extended, it's over-believed. But it's still a bull market (at least, until *proved* otherwise).

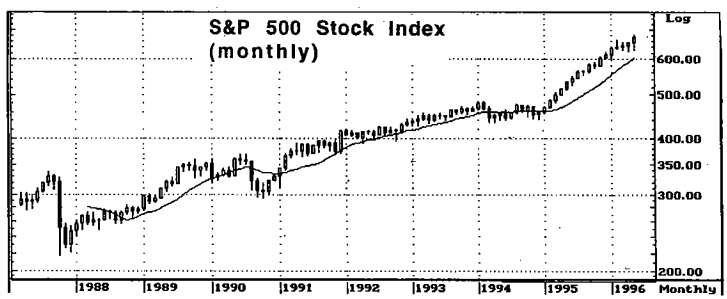
INVESTMENT POSITION: The bull (undoubtedly history's most persistent bull) remains in the box. To argue with this bull is to get gored. But I repeat what I said at the beginning of this Letter, we're dealing with a tired bull that nevertheless doesn't want to fall down. The result, a sort of technical stand-off. How then, will this market resolve itself?

Me, I'm not about to force the barometers. Here's an easy answer -- keep your eye on my Primary Trend Index. As long as it remains in the bullish mode, consider that the bull is in command. When the PTI finally breaks below its 89-day moving average, the bear will have his turn. But so far, it's been a long wait for the bear. In the meantime, I like liquidity. With the S&P 500 up 17 out of 18 months, "discretion is the better part of valor."

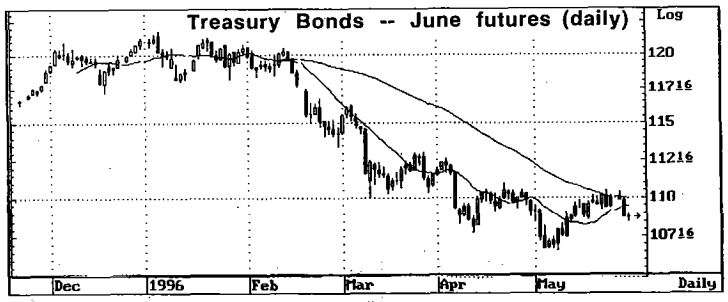
CHART STUDIES: This is a monthly chart of the **D-J Industrial Average** going back to 1987. Note that since the mini-crash of 1990, the Dow has climbed steadily above its rising 13-month moving average. Actually, since 1990 the Dow hasn't experienced a month when it has closed decisively BELOW its 13-month moving average, a most amazing performance (the Dow did hug its MA during 1994). The longer a market trend remains in force, the more important it is when that trend finally reverses. To reverse the Dow's position in relation to its 13-week MA, the Dow would have to drop below 5060.



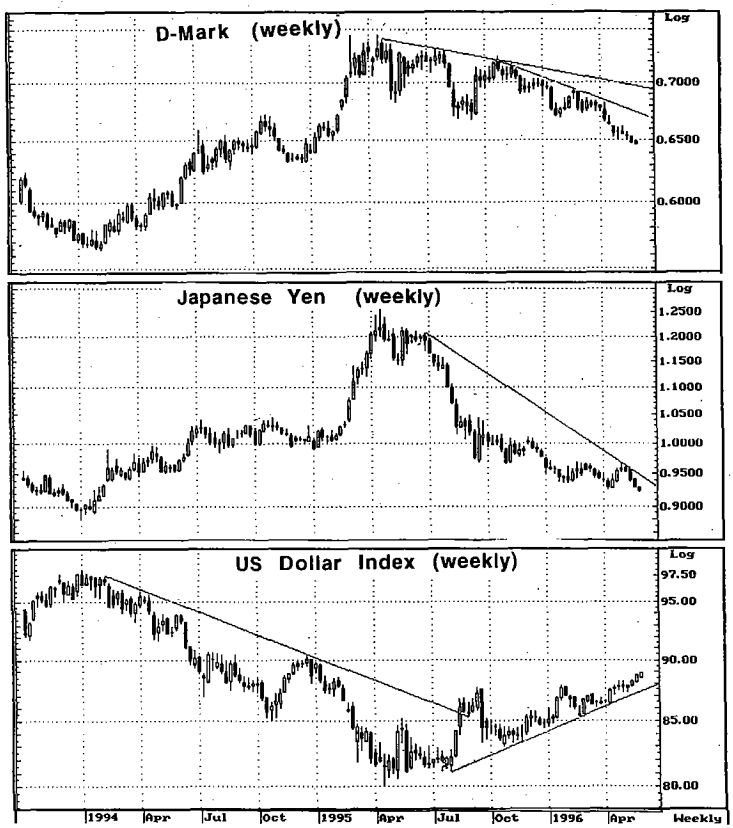
The second chart shows the **S&P 500 Stock Index** on a monthly basis. Here we see that the S&P has held very closely to its 13-month moving average. But during 1995 the S&P pushed well above its 13-week MA, the farthest, in fact, since its 1989 surge. To break below its 13-month MA, the S&P would have to drop below the 603 level. Mmm, that's a long way down.



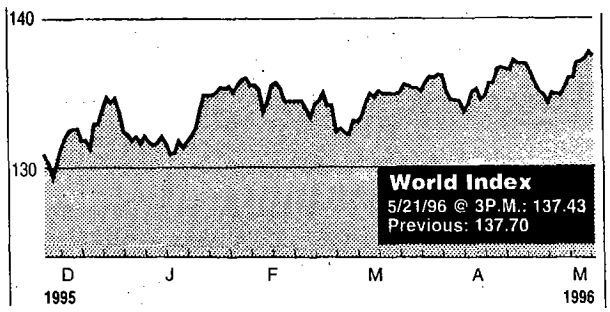
Bonds: The bond market turned bearish in early 1996, and since then it's been gang-busters on the downside. In May the long bond rallied (June futures) back to the 110 level, but by late last week the rally appeared to be running into trouble with the futures below 108. The long bond with a yield over 7% puts pressure on a stock market with average yields of around 2%.



Buck: It shouldn't come as a shock to my subscribers (I've been talking about this for a while) but the dollar is turning strong, while the D-mark and yen have turned correspondingly weak. These three weekly charts tell the story.



The world is enjoying what is undoubtedly the single greatest global stock market boom in history (of course, many nations who have never had stock markets now have them). This chart from one of my favorite papers, the *International Herald Tribune* [(800)882-2884] shows their world Index, an Index composed of 280 important international stocks. The N. American and Latin American segments of the Index are at record highs, while the Asia/Pacific and European segments are lagging.



NOTES & QUOTES: This year is the 100th anniversary of the D-J Industrial Average, and the *WSJ* is letting the world know it. (Did you see the special May 28 section of the *Journal*?) Most people are still not sure how the Dow is computed so here goes. The Dow is unweighted so each stock is treated roughly the same. Thus, a point up or down in a giant such as GE is treated the same as a point up or down in a much smaller company such as Woolworth. Here's how the Dow is computed: The 30 D-J Industrial stocks are totaled and then divided by a divisor (the divisor adjusts for splits and stock dividends). The current divisor is 0.3383. Since the divisor has dropped below 1.0 it acts as a multiplier and thus provides the Dow with huge volatility (each point in any Dow stock moves the DJIA up or down around three points).

In contrast, the S&P 500 is a weighted index -- each company in the 500 is adjusted for capitalization (stock price times the number of shares outstanding). Thus, each stock in the S&P has an impact in proportion to its importance in financial markets. The S&P is therefore a much more "scientific" index, but the Dow has the advantage of being the oldest Average measured in real time.

The Dow is also the vehicle that is used to confirm the other measurements. For instance, if the S&P or the A-D ratio hits a new high, technicians look for the Dow to confirm.

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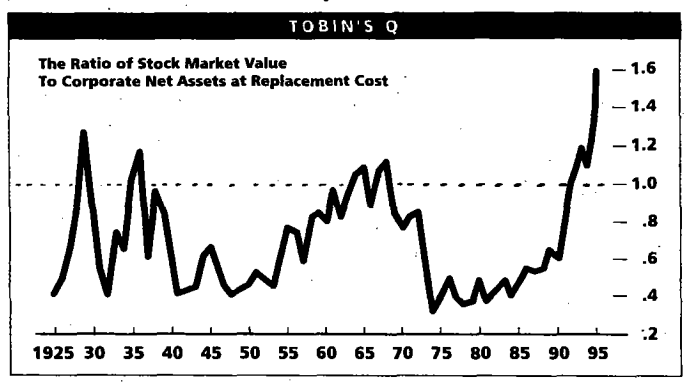
Is the market expensive? I've written about "Tobin's Q ratio" before, but last week the *WSJ, Barron's* and the *NY Times* featured it. The Q ratio shows the total value of US stocks and bonds divided by the replacement cost of corporate assets. If the Q ratio is above 1.0 it means that new companies could be built from scratch for LESS than the investors are willing to pay for existing companies (obviously, when this occurs the market begins to be overvalued). This chart from *Barron's* takes the Q ratio back to 1925. The Q ratio has now risen to a wild, all-time high, meaning that the stock market, by this measurement, is now the most over-valued it has ever been in history.



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Everybody, it seems, wants to get into the act. First the Social Security Fund lets it be known that it is thinking of investing in common stocks. Then two weeks ago "influential members of the investment community" suggested that the Canada Pension Plan should move into common stocks. The CPP now only invests in government bonds, mostly issued by the provinces.

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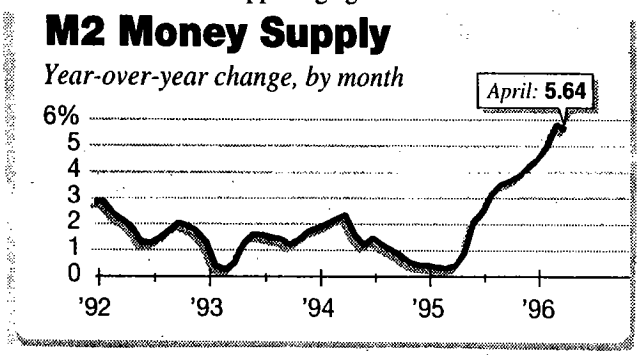
Dovetailing with the frenzy on Wall Street, the prices of "things" is beginning to open eyes. Last week a US 1913 nickel sold for $1.35 million at auction, the first time in history that a single US coin broke the million dollar mark. Two weeks ago a Lincoln letter sold for $497,000. But the outlandish prices have come from buyers of odds and ends such as a pair of shoes worn by Judy Garland or a L-color (very poor color) cloudy 40-carat diamond owned by Jackie which sold for an outrageous $2.6 million. Last week the Saks Fifth Ave. Holding Co. came out at 25 and immediately rose to close at 34.625. Then there was last week's sale of Open Market, Inc. on the Nasdaq. The company sold 4 million shares at 18, but the shares closed at 39.87. The 4 million shares of the software company represented only 15% of the company, which meant that the market valued Open Market at $1 billion. Are you kidding me! **Russell comment:** I've seen bull

markets where specific groups and categories shot up (i.e., 1968), but I can't remember seeing a bull market where "anything and everything goes through the roof." I wonder how long it will be before we see inflation in government statistics. People ask me what's behind the broad rise in prices. Well, a booming money supply for one thing. The chart below is courtesy of *Investor's Business Daily*. Don't they say that the Fed (that engine of inflation) booms the money supply prior to every presidential election? Looks like it's happening again.



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Neither the Democrats nor the Republicans have the guts to face what's happening to the nation's two biggest "old age" programs, Medicare and Social Security. But reality is now setting in. Both programs are in trouble. Medicare is already running at a deficit, this despite a 2.9% payroll tax. And Social Security is on its way to going broke. The SS payroll tax is now 12.4% but that's not enough. Unless there is a major increase in the SS tax, SS will be in trouble within 10 years. The combined 15.3% payroll tax plus the Clinton tax boost is "killing" Americans and preventing them from saving. Ultimately, there will be a huge inter-generational fight as young people refuse to pay for a rising old-age population. The only answer is to privatize both SS and Medicare. But that would take these programs out of the hands of the government bureaucrats, something Clinton most definitely does not want.

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The following is from the May 10 issue of *Human Events* [(800)787-7557], a leading conservative newspaper. The article is entitled, "Why the Republican Revolution Failed." The article ends this way, "Objectively, the Big Government folks are still winning. In Clinton's first term the Congress has passed a huge tax increase -- by some estimates, the biggest in history -- gutted our defenses, refused to reform entitlements and gone a far distance towards enacting Clintoncare via the Kennedy-Kassebaum health insurance 'reform' legislation. The real lesson of the past year's budget marathon then, is this: if Americans want government off their backs and out of their pockets, a Republican Congress is not sufficient. They must elect a Republican president as well."

Russell comment: The above is absolutely true. Clinton is now running as a neo-Republican, but on the other hand he has effectively blocked any progress with his rain of vetoes.

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In a PBS interview Hillary Clinton tried to dismiss Whitewater as "politically inspired." Really. At any rate, President Clinton (a world-class womanizer) finally found nine women he couldn't persuade. They were the members of the Little Rock jury that convicted his former business partners and cronies on 24 felony counts of fraud and conspiracy. People ask me why I detest Clinton. Actually, I don't dislike him so much for his scummy past. What I can't stand about both Clinton and his wife is their hypocrisy. All that bunk about the rich "not paying their fair share of taxes" in the '80s. All Clinton's cover-ups and denials and outright lies about his past affairs. All Hillary's "forgetting" when it comes to evidence of past deeds. I can take and even accept people who have clouded or even criminal pasts (I grew up in NYC with many toughs and criminals, some of whom are still in prison). But I can't take hypocrites. They turn my stomach. The following from Maureen Dowd's May 30 *NY Times* column: "Mr. Clinton is the golden boy who leaves his messes behind for others to clean up, sliding out of predicaments that would be fatal to less nimble pols. He had tried to jettison the parts of Arkansas that might reflect badly on him. He dropped the McDougals long ago. James McDougal watched bitterly as his old friend, the man he had worked with, worked for, and tried to help financially, rose to the top of the heap as he sank to the bottom -- poor, sick, flaky, and now felonious."

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California: The word is that in order to win, Dole must take California and either Florida or Ohio. Clinton knows all about California, and he has appeared here 24 times in the last 12 months.

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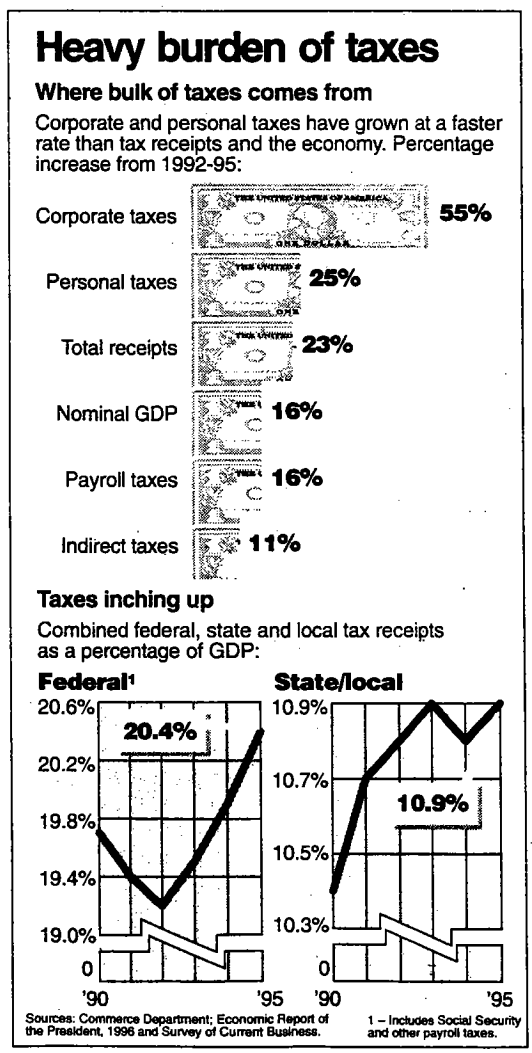
There's a vast untalked about difference between the government's inflation statistics and the average American's actual cost of living. If you're a family man or woman you have to deal with federal and state taxes, and sales and property taxes, Social Security and Medicaid taxes, college costs, and many other costs (for instance, resoling your shoes) that the government doesn't take into consideration. The fact is that the average American family is squeezed, which is one reason why savings in the US are so low.

The chart below shows the shocking rise in taxes which Americans have had to swallow between 1992 and 1995. Compare this with Hong Kong's 15% flat tax rate, and ask yourself which area is building up capital faster.



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Chips: A few months ago I wrote that everyone, it seems, was building a billion dollar (that's what they cost) plant for manufacturing memory chips, know as semiconductors. Chips were supposed to be the ever-growing wave of the future. But supply and demand still works in a free market. This year the price of memory chips has dropped a crushing 67% to roughly $14 a chip. A further problem is that if you want to remain in the chip business, you've got to keep investing -- and investing.

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Squeezed: The median income of a US family runs around $35,000. How they survive on this amount after taxes is beyond me.

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War: Larry Ellison, CEO of Oracle, claims that the network computer will change everything. The concept of a $500 computer that runs easy-to-use programs transmitted over the Internet or a corporate computer network could provide a huge boost for the database software produced by Oracle. But Ellison sees something a lot bigger -- if the network computer catches on it would bring a "shift of the center of gravity of the computer industry" away from the personal computers running programs from Microsoft, and Microsoft is Oracle's arch-rival. Last week Oracle announced endorsement of their concept by more than 50 high-tech companies, including Sun, Apple, IBM and Netscape. Industry analysts state that the primary motive of the new consortium is to usurp Microsoft's power in the desktop software market. The network computer initiative, said one analyst, is to create a "vision of the world without Microsoft." **Russell comment:** The battle for the future of desktop computing is just beginning.

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The **tobacco industry,** which hasn't lost a major lawsuit in 40 years of litigation, has done it again. The so-called Castano suit, a monster class action suit, was thrown out last week by an appeals court. Sixty law firms had put up $100,000 each (some more) as they moved to prove that cigarettes are addictive. The lawyers claimed that they had been contacted by 10,000 smokers who wanted to take part in the suit. With the class action suit now history, the lawyers now state that they will file a series of smaller class action suits and flood the courthouses of the US with individual claims. **Russell comment:** I smoked from age 18 to 46, quitting in 1970. Don't tell me nicotine isn't addictive. Quitting smoking was one of the hardest things I've ever done. Ironically, four days after I quit smoking I had a heart attack.

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The booming **world population** is depleting a lot of the earth's food sources including its fish. The National Marine Fisheries Services in Mass. states that nearly 29 species of fish are either endangered or over-exploited with their stocks now at record lows. And according to the UN's Food and Agricultural Org., 88 countries cannot grow or purchase enough food for their populations.

Today there are nearly 5.75 billion people on the earth and the numbers are growing. The estimate is that the world population is now increasing by the frightening total of 100 million people a year. This is comparable to 20 major cities of 5 million each every year. The end results are clear, either we will have to institute world population control or nature or human nature will do the controlling through wars, diseases or some other as-yet unknown disasters.

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$ports: *Financial World* (May 20) in its annual sports-team rundown lists the most valuable sports franchises and their increases or decreases in value since last year. Topping the list are (1) the Dallas Cowboys, valued at $272 million, up 14% in value since last year; (2) Miami Dolphins at $214 mils., up 15%; (3) NY Yankees at $209 mils., up 13%; (4) NY Knicks at $205 mils., up 19%; (5) Baltimore Ravens at $201 mils., up 23%; (6) SF 49ers at $196 mils., up 5%; (7) St. Louis Rams at $193 mils., up 26%; (8) Phila. Eagles at $192 mils., up 5%; (9) Phoenix Suns at $191 mils., up 22%. Biggest percentage winners -- Atlanta Braves, up 36%; Detroit Tigers, up 28%. Biggest losers -- KC Royals, down 17%; Tampa Bay Lightnings, down 12%.

* *

Whether you're for it or against it, if you're a Republican you know that the abortion issue can sink the party in the coming election. The position, that the Constitution should be changed, is an extreme position held by only a minuscule number of Republicans. Writes columnist Frank Rich, "Whatever Dole does, he won't be able to keep giving speeches about the gender gap like last week's in which he never mentioned abortion . . . With each passing day of inertia, the ante rises and the politician touchstone of abortion becomes more frightening with symbolism -- not just as an indicator of the Republican party's attitude towards women but of Mr. Dole's ability to lead." **Russell comment:** Women WILL hold the swing vote, the *deciding factor* in the election. And the majority of women do not want men to tell them what to do and how to manage their bodies or their lives.

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The May 20 *Newsweek* lauds the city of **Seattle** with its rain, its laid-back life and its many pleasures. Writes *Newsweek,* "Seattle is a city gone mad with connoisseur-ship. At the better restaurants, menu descriptions may run to three full lines of herb-crusted prose. 'Lavender-fried quail served on frisee, dressed with a sherry and thyme vinaigrette, garnished with pancetta lardons and soft-cooked quail eggs.' -- that's a salad." The article notes that diners at one restaurant "are assured that their fish was caught by long line rather than in a net, sparing their lunch a lot of needless suffering."

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Opportunity Knocks: Stoked by the success of the "Jackie auction," a number of the best-beloved are thinking about hitting the auction trail. Both Sotheby's and Christie's have resumed their campaign to get Prince Rainier of Monaco to auction off Princess Grace memorabilia. Prince Albert and the Princesses Caroline and Stephanie also feel the time may be right to release some of their mother's treasures (from the May 17 *Women's Wear Daily*).

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Election: If you're at all interested in politics, *Esquire* magazine (June) contains a fascinating article on the coming election. The article is based on the professional view rather than the head-count nonsense put forth in most articles. Presidents are picked (I'm sure you know this) on the basis of an electoral college vote, rather than on the basis of a popular vote. *Esquire* writes, "If you have been keeping score at home, you already know that Dole leads 248-246 on the *Esquire* electoral-vote tote board. But we have been squishy with our toss-up states. Florida alone could hand Dole the keys to the oval office. Or he could go over the top by combining Missouri, Louisiana and New Mexico. With all four of these states, Dole would no longer need Michigan and its plump, draft-dodging governor . . . One final scenario worthy of a politician potboiler. Clinton wins Michigan, Missouri, Wisconsin and Delaware while Dole picks up the other toss-up states. The odd result: 269-269. The nation is treated to the first tie in the electoral college since 1800, and the House of Representatives picks the president. Who says a Clinton-Dole race has to be dull?"

Russell comment: A lot of surprises could materialize prior to the election. The market could cave in, Clinton could lose California, Russia could go Communist, a recession could creep in, Clinton could get caught in another tryst, Paula Jones could win in court. Despite what many Democrats believe, it's not over yet.

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Fresh: A few months ago I wrote that the French have one of the "worst" high fat, high cholesterol diets of any nation. Yet heart attacks in France are well below US rates. How can that be? Last week I received a letter from Harold Simpson, an 88-year-old Chicago biochemist, who writes, "You commented on French food, what the French ate and how they did it. I can tell you briefly. The *quality* of French food is high. The *quality* of American food is the poorest in the world." Simpson is referring to freshness. **Russell comment:** One thing the French demand is fresh food. French housewives go to the markets *daily,* and they insist on fresh, non-toxic food (I saw this when I was in Paris). Simpson states that Americans live on stale food. And I think he's right. Think over your own eating habits and consider how much of the food you eat is actually FRESH. For the average American, the answer is "almost none." Says Simpson, today nobody talks about "staleness." And "wholesome" is a word lost from the American language.

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Interesting Figures: *People* magazine notes that the average measurements of a contemporary fashion model (female, of course) are 33-23-33. Projected measurements of a Barbie doll is 36-18-33. Sad to say, the *average* height and weight of an American woman is 5'4" and 142 pounds. And 33% of American woman wear a size 16 or larger. According to the article, 80% of US women diet, while the revenues of the diet industry are $33 billion. Mmm, only 25% of men diet. The question: do today's lithe

fashion models present US women with impossible expectations? Or do they present an ideal to shoot for?

* *

Do Deficits Count? Study these statistics, and then answer the question. Note the interest the nation now pays on the debt, and note the projected interest payments for the year 2000 (which is now only four years away, remember?). You might also study the increase in personal income taxes between 1970 and 1995. What's the answer to all this insanity? (1) Expect cut-backs by government. Bill Clinton says that "big government" is history; Clinton doesn't really believe that, but it's going to happen. It has to. (2) Expect inflation. There's no other way the government's going to handle the rising debt. Remember this -- even if Washington balances the budget (which is extremely unlikely) we'll still continue to pay $230 plus billion in interest on the current $5.1 trillion in debt.

PAYING THE PIPER: THE DEFICIT'S TRUE COST

Since 1970, the interest on the national debt has increased by a factor of 16. It could rise by another third over the next five years.

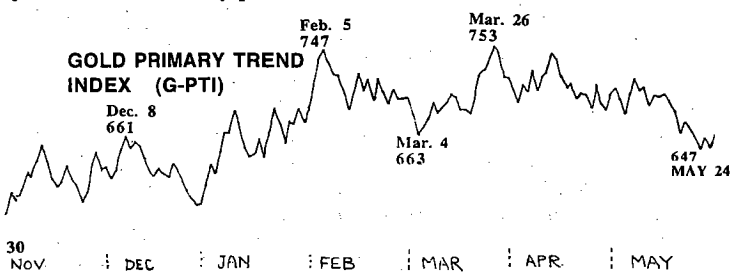
DATA CATEGORIES	1970	1995	2000
	Dollars in billions*		
U.S. annual deficit	2.8	163.9	244.0
Total of U.S. federal debt	380.9	4,921.0	6,481.0
Annual interest payments on fed. debt	14.4	232.2	283.0
Personal income taxes	90.4	588.5	756.4
U.S. corporate income taxes	33.8	150.9	190.5
U.S. Social Security taxes	44.3	484.4	614.3
U.S. savings rate	10.5%	4.5%	NA
Share of foreign reserves held in dollars	71.5%	57.1%†	NA

**Based on current dollars. †Represents 1994. Sources: Office of Management and Budget, Congressional Budget Office, and International Monetary Fund.*

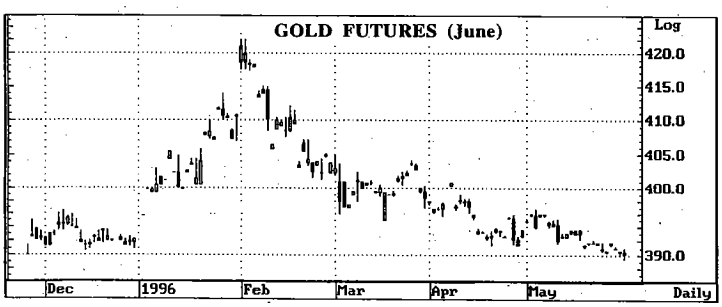
* *

With Jim McDougal now facing 84 years in prison and Susan facing 17 years, Clinton's greatest fear must be that the McDougals may start singing to special prosecutor Starr, and maybe telling the real story of Whitewater. The McDougals bet their freedom on having Clinton testify on their behalf. But surprise -- the jury didn't believe the President.

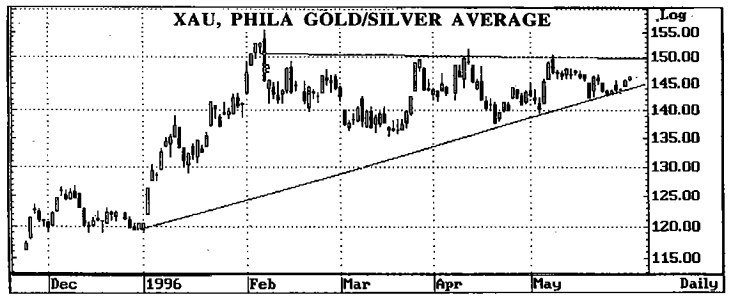
GOLD: My Gold-Primary Trend Index (G-PTI) has deteriorated. Note on the chart that in mid-May the G-PTI broke below its March 4 low of 663. This has to be discouraging to gold-philes. The G-PTI is still far above its 576 low of last October 30, but any way you look at it the May performance has been a setback.



The daily chart of gold itself (June contract) is hardly inspiring. As you can see, the June gold contract is now clinging to the 400 level, but on a decisive violation of 400 I would think that June gold could test 395 or even 390.



The remarkable thing is that the gold and silver shares have acted as well as they have. The XAU Phila. Gold/Silver Average is hanging on, but it has nevertheless been unable to break out above the 150 resistance level.



Barrick Gold and Newmont Gold are two of the real stalwarts in the gold picture. Both have formed nice ascending triangles, and normally with such formations the expectations are that they will break out to new highs. Whether this can happen with gold, the metal, acting this poorly, is doubtful.

My personal favorites in the gold shares have been and still are Franco Nevada and Euro Nevada on the Toronto exchange. Both of these excellent stocks deal in royalties from gold mines rather than mining gold themselves. Last week Franco broke to a new high. The two stocks are listed daily in the *WSJ* under "Canadian Markets." The prices shown are in Canadian dollars.

LATE NOTES: I've said it in the first paragraph of this Letter, and I'll repeat it -- this market is tired. Last week I talked to Marty Zweig, and we laughed as we discussed some of the total insanity that is taking place in this market (i.e., new issues with little or no earnings immediately being valued a half a billion to a billion dollars or more). I remember well the stock market madness of 1968, but the current action has surpassed anything I saw in '68.

The dividend on the Dow is now 123.33, which provides a yield of 2.17%, near an all-time low. Historically, many secondary corrections (forget bear markets) will take the Dow down to a 4% yield. If the Dow was to decline to the point where it yielded 4%, it would have to decline to the 3080 area. This would represent a drop of 46.6% from the May 22 bull market high of 5778.00. And I'm just talking about a correction, not a primary bear market. That should give you some idea of the risk now built into this market. But, of course you know that dividends and yields don't mean anything in this new era.

In talking to Marty Zweig I told him that I thought this was the most watched market I've ever dealt with. What I meant was that the current crop of analysts have become very sophisticated and very knowledgeable. Today there isn't a technical or analytical device that isn't followed and written about.

We discussed breath in particular, and the fact that at market tops the advance-decline ratio almost always diverges with the Dow. "Almost always," but at the 1968 top both the Dow and the A-D ratio topped out simultaneously, a great fooler at that time. I feel that today if the A-D ratio turned down in the face of a rising Dow, such action would be "too obvious" and everybody would be aware of the dangerous action. Therefore, I believe that when this bull market dies, the market will simply turn down one day without any clear technical warning. It will just fall of its own weight, with most Averages and the breadth having passed their highs. In other words, I'm not counting on any of the "normal" and well-known danger signals appearing when this hugely overpriced market gives up the ghost.

NEXT MAILING: June 19, 1996